

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6528**

**BILL NUMBER:** HB 1229

**NOTE PREPARED:** Dec 21, 2007

**BILL AMENDED:**

**SUBJECT:** Fresh Start Income Tax Credit.

**FIRST AUTHOR:** Rep. Elrod

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** This bill establishes a state income tax credit for a taxpayer that employs an individual who within the preceding four years was either: (1) convicted of a felony; or (2) released from incarceration for conviction of a felony. It provides that the amount of the credit each taxable year is \$500 per qualifying employee.

**Effective Date:** January 1, 2009.

**Explanation of State Expenditures:** *Department of State Revenue (DOR)* - The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax credit. The Department's current level of resources should be sufficient to implement this change.

**Explanation of State Revenues:** *Summary* - The bill allows a tax credit for employing a felon who was either convicted of, or released from incarceration for the felony less than four years prior. The credit is equal to \$500 times the number of qualifying employees and is prorated based on the number of months of full-time employment. The impact of this bill will ultimately be determined by the number of released or convicted felons employed in Indiana each year.

*Estimation Issues:* From 2002 to 2006, the number of convicted felons released from incarceration increased approximately 8.50%. The employment rate for convicted felons is unknown. If, for example, 10% of the eligible felons were employed in Indiana, the aggregate amount of tax credits that would be awarded under this bill would be approximately \$3.5 M.

Reports on felon post-release employment rates range widely because of lack of a universally used and

accepted definition of employment rate, as well as a great degree of variance between local economies. Therefore, it must be noted that the estimate above is a point of reference only and not to be construed as an actual estimate of the impact of this bill on state revenues. Furthermore, the example above does not account for the possibility that under this bill a person may be awarded a tax credit for employing an offender who was convicted of a felony within the last four years and is still incarcerated (as permitted under IC 11-10-7-1).

It must also be noted that to the extent that the unemployment rate for convicted felons decreases and these individuals are employed full-time, there could be an increase in state Individual AGI Tax collections as well as a reduction in re-citizenship costs. This would be determined by the number of convicted felons employed that would not have been employed but for the credit provided in this bill.

Background - Current statute, IC 6-3.1-6, allows an income tax credit for businesses that employ currently incarcerated individuals. That statute allows a credit for certain investment in equipment installed at a Department of Correction (DOC) facility and wages paid to incarcerated employees who use this equipment to conduct business (PEN Products is an example of this kind of partnership). According to a report from the DOC, the PEN products partnerships helped employ approximately 2,000 inmates, at some point in time, over the past year.

The tax credits are nonrefundable and may not be carried back. However, they may be carried forward for up to nine taxable years. In addition, the tax credits are not assignable. If the taxpayer is a pass through entity and does not have a tax liability, the credits could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity. Since the credits are effective beginning in tax year 2009, the fiscal impact likely would not commence before FY 2010.

Revenue from the Corporate AGI tax, the Insurance Premiums Tax, and the Financial Institutions Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the Individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** OFMA Corrections Databases, 2002-2006.

**Fiscal Analyst:** Hannah Mongiat, 317-232-9867.